How Detroit went broke: The answers may surprise you — and don't blame Coleman Young

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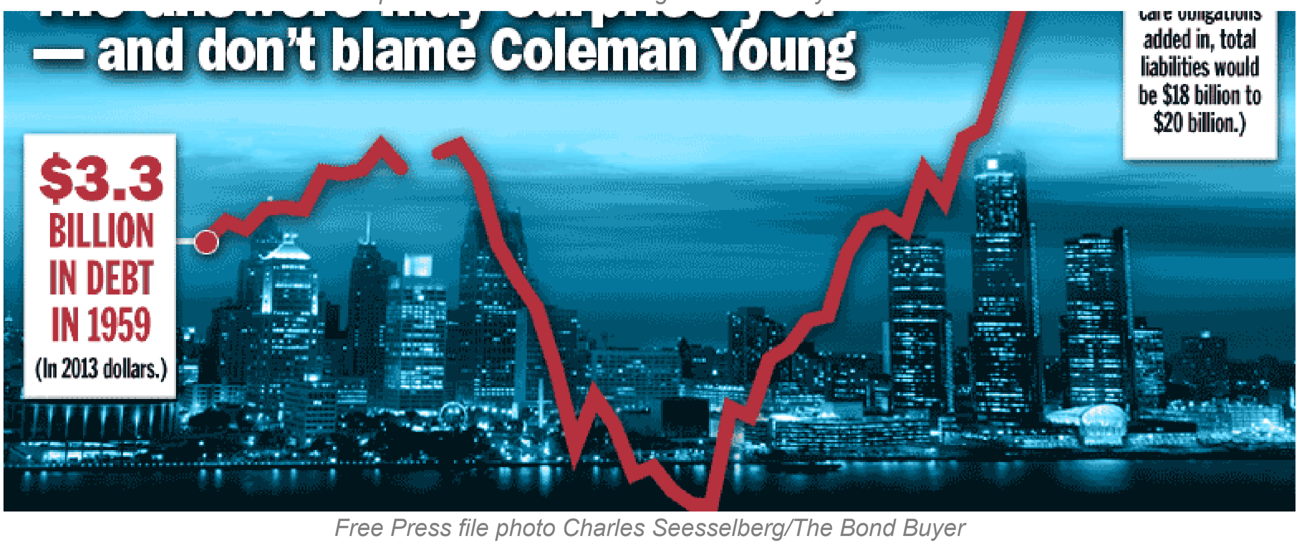

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Detroit is broke, but it didn't have to be. An in-depth Free Press analysis of the city's financial history back to the 1950s shows that its elected officials and others charged with managing its finances repeatedly failed — or refused — to make the tough economic and political decisions that might have saved the city from financial ruin.

Instead, amid a huge exodus of residents, plummeting tax revenues and skyrocketing home abandonment, Detroit's leaders engaged in a billion-dollar borrowing binge, created new taxes and failed to cut expenses when they needed to. Simultaneously, they gifted workers and retirees with generous bonuses. And under pressure from unions and, sometimes, arbitrators, they failed to cut health care benefits — saddling the city with staggering costs that today threaten the safety and quality of life of people who live here.

The numbers, most from records deeply buried in the public library, lay waste to misconceptions about the roots of Detroit's economic crisis. For critics who want to blame Mayor Coleman Young for starting this mess, think again. The mayor's sometimes fiery rhetoric may have contributed to metro Detroit's racial divide, but he was an astute money manager who recognized, early on, the challenges the city faced and began slashing staff and spending to address them.

And Wall Street types who applauded Mayor Kwame Kilpatrick's financial acumen following his 2005 deal to restructure city pension debt should consider this: The numbers prove that his plan devastated the city's finances and was a key factor that drove Detroit to file for Chapter 9 bankruptcy in July.

The State of Michigan also bears some blame. Lansing politicians reduced Detroit's state-shared revenue by 48% from 1998 to 2012, withholding $172 million from the city, according to state records.

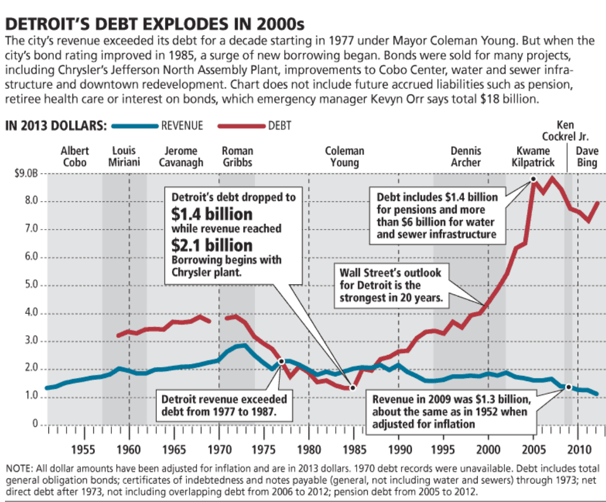
Decades of mismanagement added to Detroit's fiscal woes. The city notoriously bungled multiple federal aid programs and overpaid outrageously to incentivize projects such as the Chrysler Jefferson North plant. Bureaucracy bogged down even the simplest deals and contracts. In a city that needed urgency, major city functions often seemed rudderless.

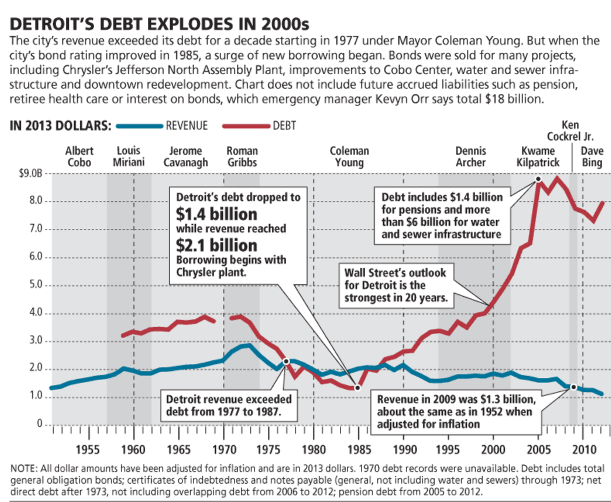
When all the numbers are crunched, one fact is crystal clear: Yes, a disaster was looming for Detroit. But there were ample opportunities when decisive action by city leaders might have fended off bankruptcy.

If Mayors Jerome Cavanagh and Roman Gribbs had cut the workforce in the 1960s and early 1970s as the population and property values dropped. If Mayor Dennis Archer hadn't added more than 1,100 employees in the 1990s when the city was flush but still losing population. If Kilpatrick had shown more fiscal discipline and not launched a borrowing spree to cover operating expenses that continued into Mayor Dave Bing's tenure. Over five decades, there were many 'if only' moments.

"Detroit got into a trap of doing a lot of borrowing for cash flow purposes and then trying to figure out how to push costs (out) as much as possible," said Bettie Buss, a former city budget staffer who spent years analyzing city finances for the nonpartisan Citizens Research Council of Michigan. "That was the whole culture — how do we get what we want and not pay for it until tomorrow and tomorrow and tomorrow?"

Ultimately, Detroit ended up with $18 billion to $20 billion in debt and unfunded pension and health care liabilities. Gov. Rick Snyder appointed bankruptcy attorney Kevyn Orr as the city's emergency manager, and Orr filed for Chapter 9 on July 18.





For this report, the Free Press examined about 10,000 pages of documents gathering dust in the public library's archives.

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Since most of those documents have never been digitized, the Free Press created its own database of 50 years of Detroit's financial history. Reporters also conducted dozens of interviews with participants from the last six mayoral administrations as well as city bureaucrats and outside experts. Among the highlights from the review:

Taxing higher and higher: City leaders tried repeatedly to reverse sliding revenue through new taxes. Despite a new income tax in 1962, a new utility tax in 1971 and a new casino revenue tax in 1999 — not to mention several tax increases along the way — revenue in today's dollars fell 40% from 1962 to 2012. Higher taxes helped drive residents to the suburbs and drove away business. Today, Detroit still doesn't take in as much tax revenue as it did just from property taxes in 1963.

Reconsidering Coleman Young: Serving from 1974-1994, Young was the most austere Detroit mayor since World War II, reducing the workforce, department budgets and debt during a particularly nasty national recession in the early 1980s. Young was the only Detroit mayor since 1950 to preside over a city with more income than debt, although he relied heavily on tax increases to pay for services.

Downsizing — too little, too late: The total assessed value of Detroit property — a good gauge of the city's tax base and its ability to pay bills — fell a staggering 77% over the past 50 years in today's dollars. But through 2004, the city cut only 28% of its workers, even though the money to pay them was drying up. Not until the last decade did Detroit, in desperation, cut half its workforce. The city also failed to take advantage of efficiencies, such as new technology, that enabled enormous productivity gains in the broader economy.

Skyrocketing employee benefits: City leaders allowed legacy costs — the tab for retiree pensions and health care — to spiral out of control even as the State of Michigan and private industry were pushing workers into less costly plans. That placed major stress on the budget and diverted money from services such as streetlights and public safety. Detroit's spending on retiree health care soared 46% from 2000 to 2012, even as its general fund revenue fell 20%.

Gifting a billion in bonuses: Pension officials handed out about $1 billion in bonuses from the city's two pension funds to retirees and active city workers from 1985 to 2008. That money — mostly in the form of so-called 13th checks — could have shored up the funds and possibly prevented the city from filing for bankruptcy. If that money had been saved, it would have been worth more than $1.9 billion today to the city and pension funds, by one expert's estimate.

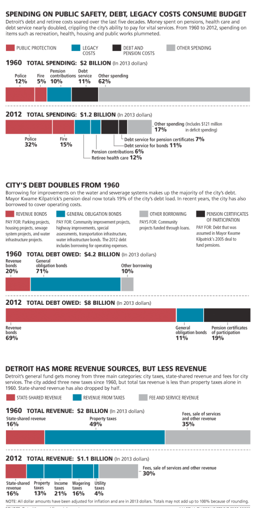
Missing chance after chance: Contrary to myth, the city has not been in free fall since the 1960s. There have been periods of economic growth and hope, such as in the 1990s when the population decline slowed, income-tax revenue increased and city leaders balanced the budget. But leaders failed to take advantage of those moments of calm to reform city government, reduce expenses and protect the city and its residents from another downturn.

Borrowing more and more: Detroit went on a binge starting around 2000 to close budget holes and to build infrastructure, more than doubling debt to $8 billion by 2012. Under Archer, Detroit sold water and sewer bonds. Kilpatrick, who took office in 2002, used borrowing as his stock answer to budget issues, and Bing borrowed more than $250 million.

Adding the last straw — Kilpatrick's gamble: He's best known around the globe for a sex and perjury scandal that sent him to jail and massive corruption that threatens to send him to prison next month for more than 20 years. The corruption cases further eroded Detroit's image and distracted the city from its fiscal storm. But perhaps the greatest damage Kilpatrick did to the city's long-term stability was with Wall Street's help when he borrowed $1.44 billion in a flashy high-finance deal to restructure pension fund debt. That deal, which could cost $2.8 billion over the next 22 years, now represents nearly one-fifth of the city's debt.

With all the lost opportunities over decades, with Detroit's debt mounting, with the housing crash and Great Recession just over the horizon, 2005 turned out to be the watershed year.

Although no one could see it at the time, Detroit's insolvency was guaranteed.



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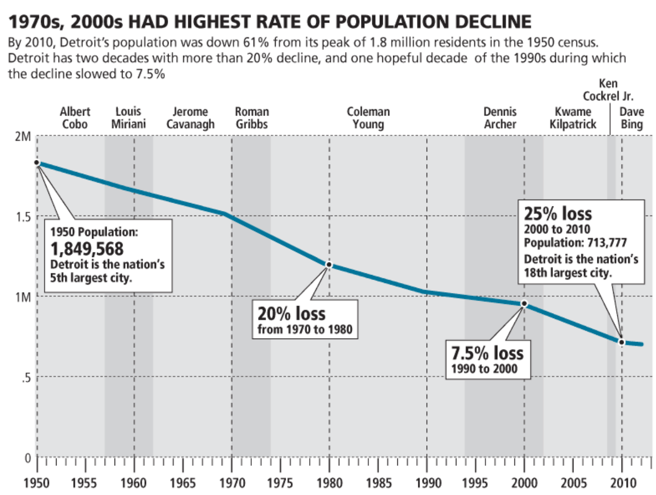
Postwar boom, then ugly firstsigns of urban decline

Coming out of World War II, American industry was triumphant, and few centers of industry were riding higher than Detroit. The Arsenal of Democracy had built the planes and tanks that carried the war effort and was ready to return to producing cars and trucks for peacetime.

The fruits of victory were everywhere. Detroit's population was growing toward 2 million. The cityscape was crowded — 14,000 people per square mile. With almost one-third of Michigan's population living within its borders, Detroit exercised an outsized influence on the state's politics and economy.



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But the 1950s brought the first sobering inklings of crisis, and Detroit mayors for two decades made halting attempts to get ahead of it. Albert Cobo (1950-1957) formed the Dodge Committee to recommend diversifying the city's tax base as wartime contracts dried up. Jerome Cavanagh (1962-1970) responded to falling revenue by instituting Detroit's first income tax. Roman Gribbs (1970-1974) spearheaded an effort to revitalize downtown and Detroit's tax base.

But two trends were undermining Detroit and the nation's industrial centers like no foreign enemy had been able to do.

Suburbanization: All cities spread out postwar into the farmland at their perimeters. Automakers and road builders eager to sell cars, home builders eager to sell new houses, village mayors eager for new taxes — all promoted suburban growth. So did the federal government with its subsidies and tax incentives. Eager for elbow room, families in crowded cities like Detroit and Cleveland and St. Louis began moving to the new communities. The process of spreading out hasn't stopped yet.

Discriminatory practices, such as redlining — denying minority buyers mortgages and access to homes in white neighborhoods — made the process in Detroit and many other cities an ugly one. Unscrupulous real estate agents encouraged white flight by stoking some whites' fears of black people moving in next door. Rancor ran deep. Experts warned of two Americas: one privileged, suburban and white; the other poor, urban and black.

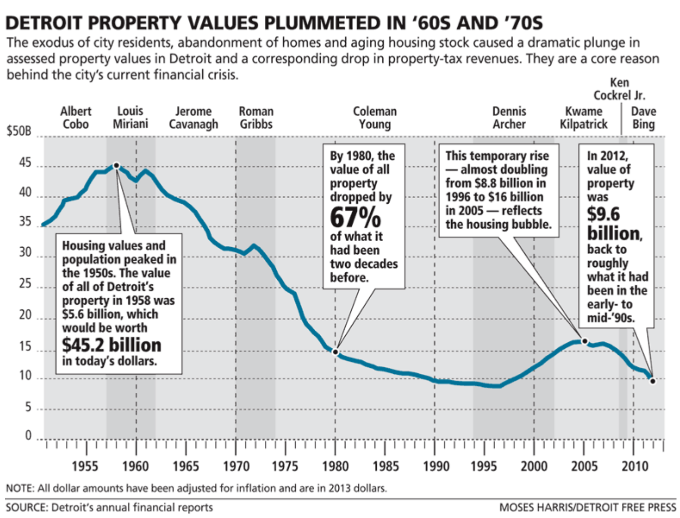
Deindustrialization: Cities like Detroit and Flint that rose to power in the first half of the 20th Century were shocked to find in the second half how many factory jobs would be lost to foreign competition. Detroit auto executive Lee Iacocca once boasted that U.S. carmakers would kick their Japanese competitors back into the Pacific Ocean. He was wrong. American steelmakers learned the same hard lessons.

Even by the late 1950s, the signs of strain were showing in industrial cities. Population and housing values peaked in Detroit in the 1950s and began their long and seemingly unstoppable decline. The urban riots of the 1960s, including Detroit's, accelerated the process.

By the 1960s, in Detroit as in city after city, the process was well under way. And mayors and civic leaders, here and elsewhere, began their long, anguished battle against decline.

Today, the revivals of downtown and Midtown are drawing young professionals of diverse race and ethnicity back to the city. But the overall population is still dropping as people leave, looking for safer neighborhoods, better schools, lower taxes and reliable city services. Detroit's population now is about 700,000.

Other cities also have profound problems today — Chicago, Providence, R.I., Baltimore. But only Detroit is in bankruptcy court.



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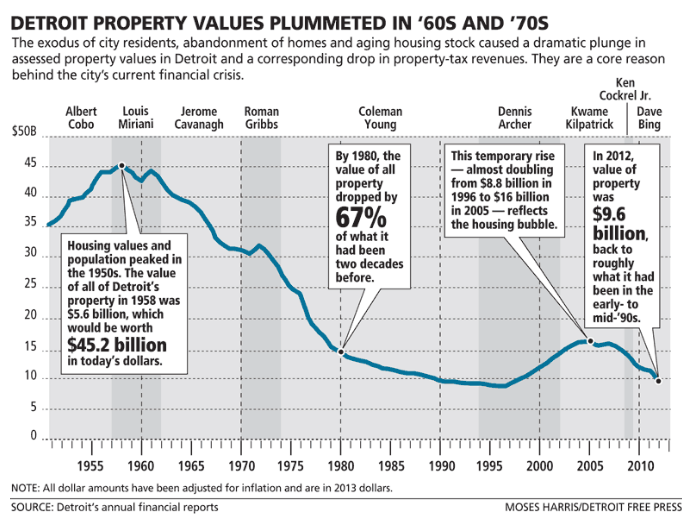

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Cause and effect: People leave, taxes go up, more people leave

As the post-World War II manufacturing expansion leveled off and Detroit started to lose population and revenue, the city turned for the first time in 1962 to an income tax: 1% for residents, nonresidents and corporations. Only six years later, the rate for residents would double.

In the early 1980s, a nasty national recession pummeled the auto industry, and Detroit's finances spiraled downward. Mayor Young convened a blue-ribbon panel to recommend action. They said the city would be bankrupt by summer if it did not raise taxes and reduce costs again.

Within months of a heated primary election, Young achieved the politically unthinkable: He persuaded Detroit voters to increase their own income taxes from 2% to 3%. He got Republican Gov. William Milliken to sign off, too. And he coupled it with deals to freeze wages for thousands of workers and lay off several hundred police officers.

“He could pull a lot of this off because he had such political capital in the community that a lot of folks would say, ‘If Coleman Young said it, it must be OK,’” said Tim Kiska, a professor at the University of Michigan-Dearborn.

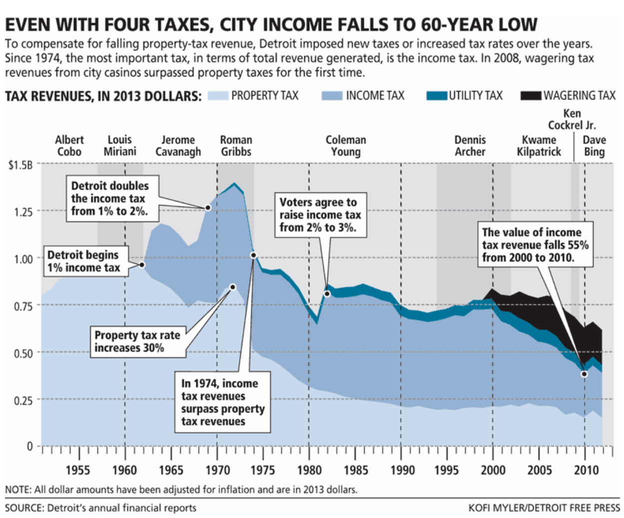
To continue paying for city services and to pay for union benefits awarded by outside arbitrators, the city also instituted a new utility tax in 1971 and a wagering tax when casinos began operating here in 1999. As population declined, the city instituted new taxes or raised existing ones to try and keep up with falling revenues.

The total property tax burden for city homeowners, including county and school taxes, rose from 44.79 mills per thousand dollars of value in the mid-’60s to 88.178 per thousand by 1991.

“It’s almost like every decade we got a new source of income to keep our ass on the ground,” said Ed Rago, Young’s budget director.

But the problem with using taxes to raise revenue was that it made the city a more expensive — and less attractive — place to live and do business. People and corporations kept leaving.

“So, very quickly, you had a situation where the city residents were taxed far higher than anywhere else,” Buss said.



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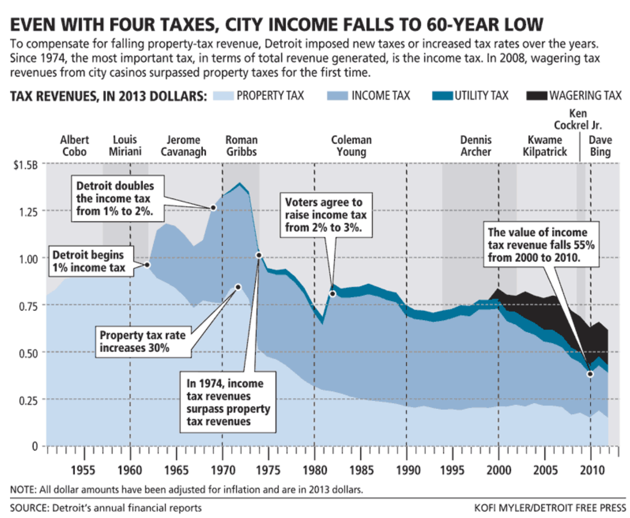

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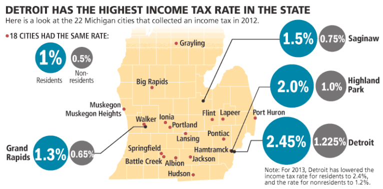
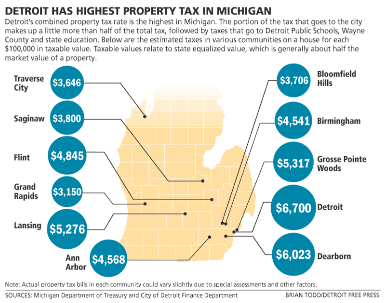
Coleman Young’s legacy:Divisive — but fiscally sound

When Coleman Young was elected mayor in 1973, Detroit had lived through one of the worst race riots in U.S. history and had lost about half a million people from its peak population years. Young has been alternately blamed for fanning the flames of racial tension, dealing out sweetheart deals to unions, expanding the city’s budget and setting Detroit on a path toward financial destruction.

Indeed, he did raise taxes, but he also recognized fiscal realities by cutting costs aggressively to shore up the budget. Contrary to the typical portrait of





Free Press file photo Charles Seesselberg/The Bond Buyer

him, Young may have been Detroit's most conservative modern mayor, attacking fiscal problems by shrinking government and forging new relationships with corporate America to build new Detroit auto factories during his tenure.

Free Press file photo Charles Seesselberg/The Bond Buyer

Mayor Coleman Young reduced the city's workforce and department budgets.

"Coleman Young was a fiscal conservative," said Buss. "Not many people appreciate that about him. He knew politics, and he was also desperately afraid that his community would lose control."

He even reduced its recreation infrastructure. For example, when Young took office in 1974, the city had 117 skating rinks, 18 city pools and five "swim-mobiles," portable metal tanks that were filled with water and traveled to neighborhoods so kids could take a dip.

When Young left office, the city had four skating rinks and 12 city pools. The swim-mobiles were still around.

Under Young, Detroit cut about 6,000 workers from 1978 to 1984, according to financial records reviewed by the Free Press. During his two decades as mayor, he also cut about 2,000 Police Department employees and about 500 Fire Department employees.

"He did a number of things to bring costs down," said Bob Berg, Young's former press secretary. "He kept a pretty tight rein ... in some very difficult economic times."

One reason Young cut public safety officers: The city lost an arbitration ruling during a bitter dispute early in his tenure in favor of hefty union compensation.

Roger Short, a budget analyst who later became one of the city's top fiscal officials in the Archer and Kilpatrick administrations, recalled that Young also slashed the Police Department's equipment.

"We got rid of the planes and the helicopters," Short said. "We couldn't afford them."

Still, Young cannot be altogether exonerated in his role in Detroit's financial demise. In fact, when he was serving in the state Legislature, Young wrote Public Act 312, which required binding arbitration in union compensation fights, the very same law that came back to haunt the city years later when the city lost arbitrations.

"He always said it was the worst mistake he ever made in public life," Berg said.

Young embraced taxes, too. Raising taxes helped him keep the budget balanced. The city's income tax revenue for residents doubled from 1981 to 1986, according to the Free Press analysis.

With the public safety cuts, Young stabilized the budget. In 1985, the city's debt-to-revenue ratio in today's dollars hit an all-time low of 0.66, according to the Free Press analysis. Today, the ratio is 7.1 — more than 10 times greater.

Kiska, who covered Young's administration for the Free Press in the early 1980s and wrote a book about the city's power brokers, said Young was responding to a "sense of terror" as the auto industry languished.

"If you look at what he's done, he was behaving — and this is just my opinion — totally responsibly," Kiska said.

Wall Street apparently agreed. In June 1986, Standard & Poor's increased Detroit's bond rating to investment-grade, ending a six-year stretch in which Detroit's ability to borrow was limited.

That kicked off a spree that continued through the end of Young's administration. From 1987 to 1994, the city's debt load soared 72% in inflation-adjusted dollars, according to a Free Press analysis.

In 1990, for example, the city sold $130 million in limited-tax general obligation bonds, which voters had not approved, to help finance Chrysler's Jefferson North Assembly Plant. At the time, analysts projected the deal would cost the city a total of $245 million in principal and interest over 20 years.

Still, Detroit's debt was relatively under control under the Young administration and through the Dennis Archer years. It wasn't until the early 2000s that it started to become unmanageable.

Missed chances to rightsizestaff as population falls

One running theme in the Free Press' review is that city leaders failed, again and again, to come to grips with the looming crisis. Young downsized the bureaucracy, but not as much as he should have in view of the city's declining population and revenue.

And in 1994, when the Clinton-era financial boom took hold and the city's finances appeared to be stabilizing, the city started hiring again.

Flush with new tax revenue, Archer increased the city workforce from 1994 to 2001, even as the population contracted. Those new employees added to the city's legacy costs. By the end of the 2001 fiscal year, the city had 18,132 employees, about one worker for every 51 residents.

Archer told the Free Press that cuts were not politically palatable then, in part because the U.S. economy was booming. He defended adding employees, saying the city could afford it and budgets were balanced during his tenure.

"We wouldn't buy things unless we could afford to," he said. "That's how we were able to, frankly, balance our budget and have a modest surplus, because we watched what we were doing."

But as Detroit's economic problems intensified, Kilpatrick, mayor from 2002 until he resigned amid a sex and perjury scandal in 2008, presided over one of the largest purges of municipal workers in the city's history — cutting more than 4,000 employees.

When Bing, the current mayor, inherited a red-ink budget in 2009, he resorted to more cuts in an attempt to keep the city solvent, slashing another 4,000 employees in four years. In just a few years, Bing laid off nearly one of every three city workers.

Today, the city has about one employee for every 73 residents.

Costs for health care, retiree benefits soar — city fails to act

It has been obvious for at least a quarter-century that governments and industry were going to face massive legacy costs as more workers aged and retired. In fact, Detroit had about 18,000 retirees in the late 1980s, only about 3,000 fewer than today.

But Archer said the red flags weren't obvious in the 1980s and 1990s. "During the eight years I was in office, there was some discussion that was starting to be held, quietly," he said. It eventually became clear that "cities needed to watch out; states needed to watch out."

Ed Hannan, one of his budget directors, agreed: "If you go way, way back, health care was not an expensive add-on," he said. "As years went on, health care became very big.... We did go to council. We showed projections and what would happen and difficult times ahead. We were met with skepticism."

Even in recent years, when no one questioned that the health care tab had been ballooning, city leaders failed to cut costs because of intense pressure from unions. Adverse court and arbitration rulings also stymied the city's best efforts to cut. The city's spending on retiree health care soared 46% from 2000 to 2012, even as general fund revenue fell by 20%.

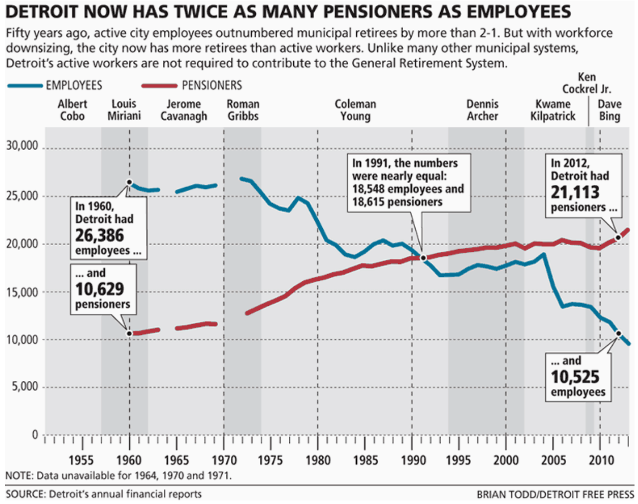
Meanwhile, the city's total unfunded retiree health care liabilities rose 19% from 2007 to 2011. Those numbers are critical because they show how costs have increased even though the number of employees was decreasing.

Today, the city's retiree health care obligations continue to drain the budget and are central to its insolvency.

The city also missed opportunities to rightsize retirement benefits. For instance, when the State of Michigan switched from pensions to 401(k)-style plans in 1997, Detroit failed to follow suit.

Archer negotiated with the pensions funds to create a new plan for city workers, but it was never implemented.

In 2000, the city spent about $99 million on retiree health care benefits. That rose by almost half to about $145 million in 2012.



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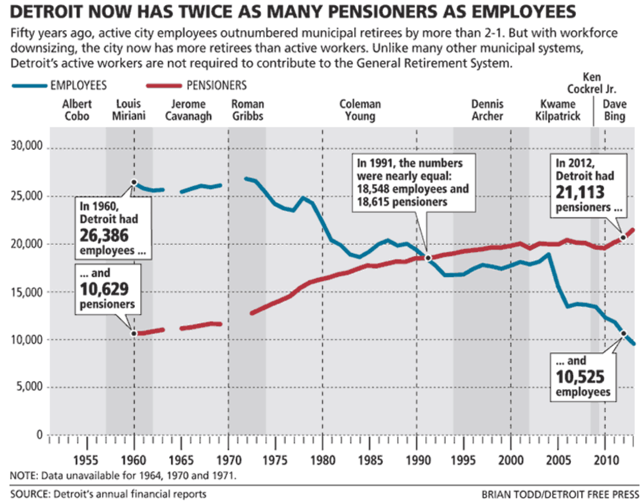

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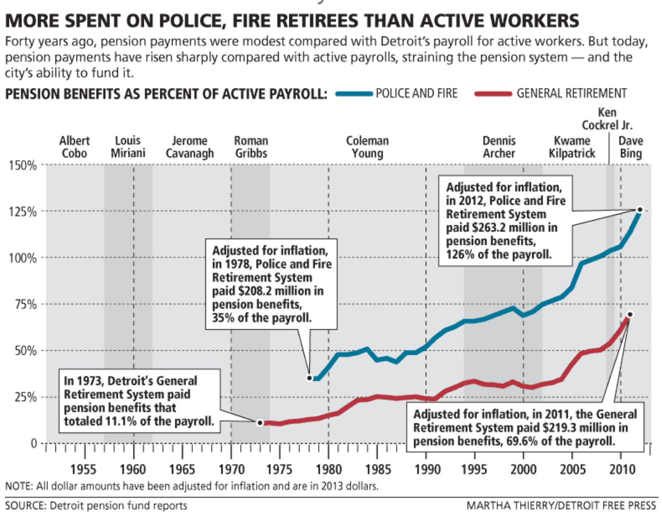

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Bonuses to workers, retireesadd up to more budget trouble

In 1994, Archer convened a meeting of his top officials the first week he took office to inspect the city's books. Rago, Young's budget director who stayed on during Archer's first year, told the new mayor how the city's pension system distributed excess earnings each year to retirees and active employees, instead of reinvesting it. The practice of distributing 13th checks and annuity bonuses dated to at least the mid-1980s.

Alarmed, Archer vowed to kill the practice. But the city doesn't control its pension funds, which have been largely administered by union officials serving on two independent pension boards.

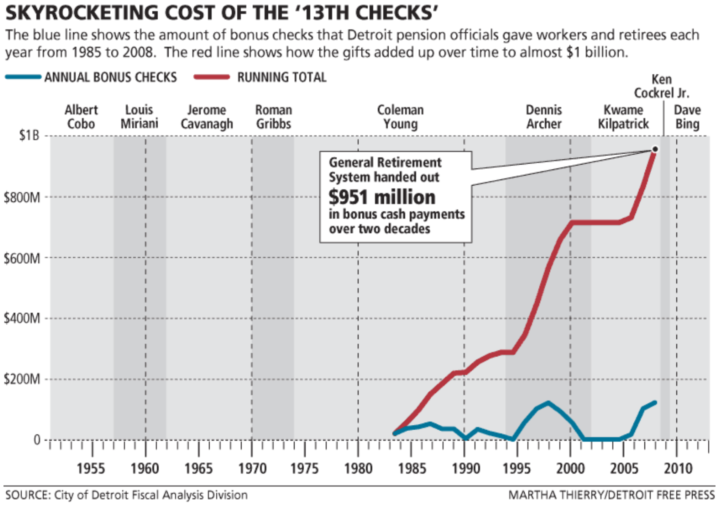
So Archer backed an effort to block the payments through a proposed new city charter, which actually passed in August 1996. Enraged, several city unions and a retiree group sued and won. Archer tried again to block payments through a ballot initiative, called Proposal T, but it failed.

"That's a whole lot of money that, if it was in the pension fund, may have made a difference," Archer told the Free Press.

Milliman, an accounting firm conducting an analysis for Detroit emergency manager Kevyn Orr, this year pegged the unfunded pension liabilities at $3.5 billion. Pension fund trustees dispute that figure, saying the funds are healthy despite the 13th check practice and a string of poor investments over the last decade.

One of the city's two pension funds, the General Retirement System board, which represents nonuniform employees, doled out $951 million in excess earnings, mostly to retirees and active employees, from 1985 to 2008, according to a report conducted for City Council in 2011 by independent actuary Joseph Esuchanko.

He estimated that the total accumulated cost to the city from the distributions, including lost interest, was $1.9 billion as of June 30, 2008.



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It's unclear exactly how much extra money was distributed from the city's other pension fund, which covers police and fire department employees. Officials have told the Free Press, however, it was a much less frequent practice and that it happened in earnest for only a few years. With the stock market booming under Archer's tenure, the city agreed in negotiations with its police and firefighter unions in October 2000 to hand out $190.4 million in bonus pension payments to current and future retirees.

There were clear signs of strain in Detroit's two pension funds going back to the 1970s. The level of benefits paid each year was rising dramatically, in actual dollar amounts and as a percentage of the city's active payrolls.

The funds also raised benefits year after year for decades through a cost-of-living allowance and through higher benefits negotiated by unions.

Don Fuerst, a senior pension fellow at the American Academy of Actuaries, calls those rising costs "a serious red flag" for a pension fund.

"When you see costs increasing as a percentage of payroll, as a percentage of revenues, as a percentage of assets, and you see a clear trend of increasing costs, that should be a red flag of concern, no question," he said.

Shirley Lightsey, president of the Detroit Retired City Employees Association, said many retirees have accepted that times have changed.

"We've told our people there's no more 13th check, so don't even talk about it anymore," she said.

The pension board claims of safety and solvency were exaggerated over time in part because of a common but controversial accounting practice called "smoothing," according to a Free Press analysis of pension reports.

That concept was used by Detroit trustees to assign a predicted annual return on assets over a seven-year period to "smooth" out the up-and-down market gyrations. But in Detroit's case, the predicted return was too high and the reality of poor investments and falling contributions sapped the funds too quickly for the "smoothed" out numbers to remain accurate.

Detroit's pension boards also had another problem, experts say: Seven years is too long a period for smoothing. Three to five years is a more responsible time frame for predicting market returns.

As a result, the actual value of assets for Detroit's two pension funds is really about $5.4 billion — not the $6.77 billion claimed by the pension boards. That's 20% off — and "really substantial," Fuerst said.

Kilpatrick's award-winning deal turns into a financial disaster

On Dec. 6, 2005, Kwame Kilpatrick strode to the stage of a New York City ballroom to applause. Decked out in a black tuxedo, Kilpatrick accepted a gleaming trophy for engineering a complex $1.44-billion pension deal designed to eliminate the city's unfunded pension liabilities.

He cracked a joke on stage, and Wall Street chuckled. Photographs from the event show laughing faces, a high-priced evening, a night to envy.

The transaction — which earned Detroit the Midwest Regional Deal of the Year honors from the Bond Buyer, Wall Street's bible for municipal investments — was hailed for its intricate legal framework and creativity. City officials openly bragged that they had to construct a byzantine legal structure to justify the deal.

Free Press file photo Charles Seesselberg/The Bond Buyer

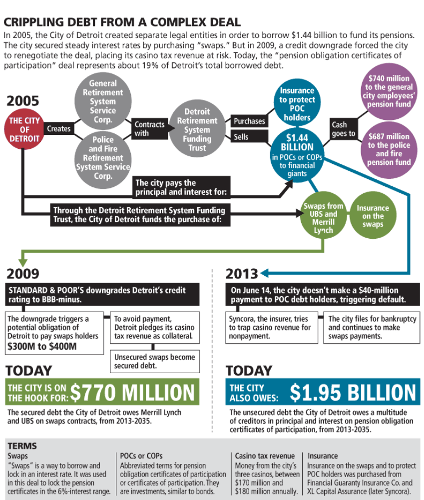
Kwame Kilpatrick accepts the Bond Buyer's Deal of the Year Award.

The deal hailed by Wall Street was a disaster. The borrowing scheme now represents close to one-fifth of the city's debt and stands as a key reason the city filed for Chapter 9 bankruptcy on July 18.

Many said it seemed like a good idea at the time, but the financial machination now stands as a prime example of the city's willingness to borrow huge sums — and how Kilpatrick took borrowing to new heights.

For a year, Kilpatrick had lobbied the City Council to approve the idea of borrowing to fund pensions. The mayor said the city's pension obligation, left unaddressed, would force him to lay off 2,000 employees.

But his new deal was designed to fix all that. He estimated the city would shave $277 million a year from its pension contribution obligation and prevent layoffs. It worked like this: Detroit sold pension obligation certificates of participation and shoved the money into its pension funds, making them nearly 100% funded. Separately, the city also bought so-called swaps, or derivatives, a complex Wall Street financial deal to permanently lock in steady interest rates in the range of 6%, a comparatively good rate at the time.



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Council members at the time — Maryann Mahaffey, Barbara-Rose Collins, Sharon McPhail and JoAnn Watson — blocked the original pension certificates deal for months. They warned it was too risky because of the stock market's volatility and accused Kilpatrick of political gamesmanship.

The Free Press editorial page in February 2005 also applied pressure, calling the reluctant council members "heads-in-the-sand" politicians who "have become a threat to the stability of the community." The editorial described the transaction as a "sound deal" that was "akin to refinancing a mortgage."

Eventually, the council members capitulated under pressure from Kilpatrick and criticism from unions, including the American Federation of State, County and Municipal Employees, which represented city workers. The deal eventually passed council unanimously.

“Kilpatrick had to know or to believe he wasn’t going to be around at the time those payments were going to be due,” said Joseph Harris, Detroit’s auditor general from 1995 to 2005.

Three years later, interest rates tanked and the stock market collapsed. Detroit’s credit rating was downgraded. In desperation, the city pledged its casino tax revenue as collateral to creditors to avoid a payment of up to $400 million that, back then, would have pushed Detroit into a bankruptcy filing.

The city now owes $2.8 billion for principal, interest and insurance payments over the next 22 years, according to a Free Press review of the city’s records. The bill soared in part because the city made only interest payments for about five years.

“Things really got ugly as a result of that,” said Rago, the former budget director. “In the end, as you look back on it, it was the worst thing they could have done.”

Bankruptcy avoidable — until decadelong borrowing binge

Despite the city’s huge tax burden, big spending and large bureaucracy, the Free Press analysis suggests that when Archer left office in 2001, the city still could have avoided disaster. Bankruptcy was not inevitable.

But under the Kilpatrick and Bing administrations, the city started borrowing aggressively to cover its operating expenses, enabled by Wall Street’s irresponsible lending of the 2000s.

“It just makes me ill. Almost cry,” said former Mayor Gribbs, now 87, who served from 1970 to 1974. “You can’t continually borrow money and use it for operating expenses and expect never to have the trouble of paying it back. That’s where you end up going bankrupt.”

Shortly after Kilpatrick took office, his administration issued $61.07 million in “fiscal stabilization bonds.” It was the first of several bond issues championed by Kilpatrick to keep the city budget afloat.

Kilpatrick was full of ideas — like turning the crumbling Michigan Central Station into police headquarters — but was never able to build realistic budgets. He added city workers, then had to cut them. His stock answer to budget issues was to borrow. And chronic annual deficit spending started under him.

In 2009, at Bing’s urging, the city issued $250 million in fiscal stabilization bonds. He told the Free Press last week that the city was almost out of cash and that he couldn’t avoid borrowing.

“I think too many of us looked at Detroit through rose-colored glasses and thought the revenue was going to increase and therefore we didn’t have to do anything on the expenditure side,” he said. “But I knew early on that my revenue wasn’t going to increase and my only option was to cut.… I had to make sure that there was enough money in our system to carry us through the next fiscal year and maybe the next.”

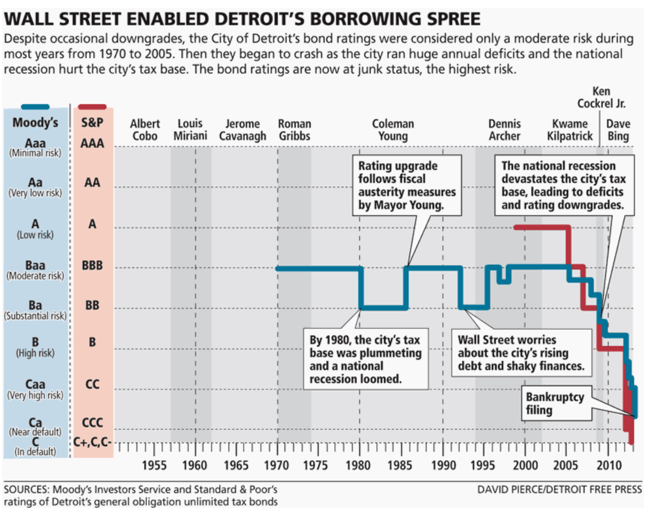
The borrowing also was aided by Wall Street. As recently as the middle of the last decade, bond rating agencies, including Moody's and Standard & Poor's, were rating Detroit debt as investment grade.

But even after eventual downgrades, investors continued to scoop up each new city bond issue. That's because the lower the credit rating, the higher the interest paid to investors.

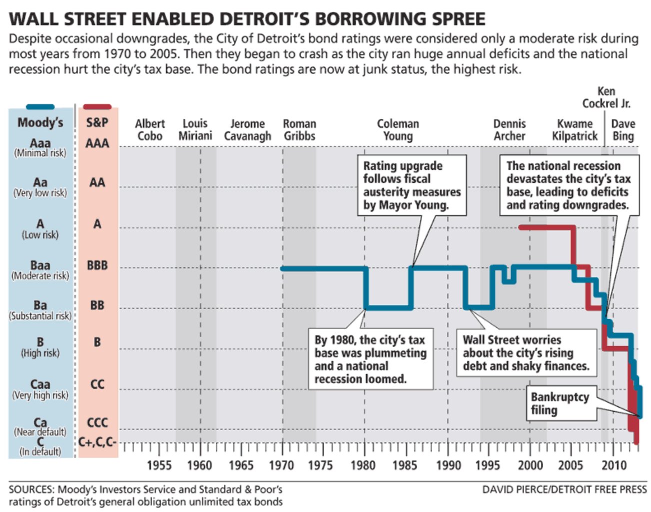
The demand was also fueled by Wall Street's mistaken impression that the State of Michigan would never allow the city to file for bankruptcy.

In 2009, Harris — who became chief financial officer for Mayor Kenneth Cockrel Jr. during his single year in office 2008-09 — met with Wall Street firms and rating agencies to help the water department issue revenue bonds. At one stop with a credit agency, he discussed the city's tenuous financial circumstances with an analyst.

"She says, 'Well, what happens if Detroit goes bankrupt?'" Harris recalled in a Free Press interview. "I said, 'We don't. The state will step in and ensure that they right the ship and that the bonds are paid.'"



Free Press file photo Charles Seesselberg/The Bond Buyer



Free Press file photo Charles Seesselberg/The Bond Buyer

Finally: What would Frank do?

An echo of Detroit's current distress can be found in memories of the Great Depression of the 1930s. Then, too, Detroit suffered overwhelming unemployment, chronic budget deficits, rampant crime.

But the city government managed to avoid a financial collapse, led by charismatic Mayor Frank Murphy, later Michigan's governor, U.S. attorney general and associate justice of the U.S. Supreme Court.

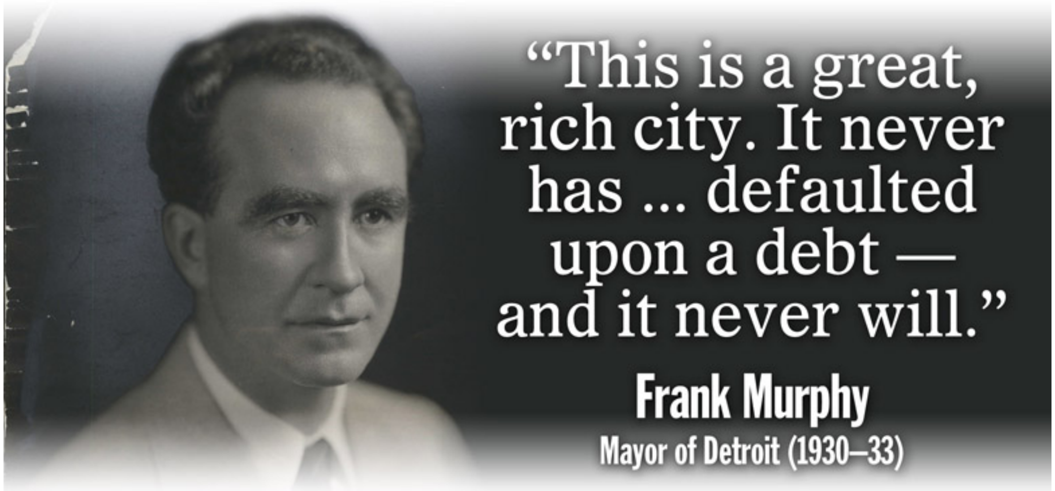
In a report to citizens, Murphy bemoaned the "unsatisfactory governmental administration in the near past," the "racketeers" who were plaguing the community and the "acute" joblessness that undercut the city.

Despite an imploding economy, he called for a "stubborn stand against the allowance of deficits." He pledged to cut the city's budget "to the bone" and he declared war on "financial acrobatics" in a letter attached to the city's 1930 annual report, which the Free Press uncovered in the Detroit Public Library.

His efforts helped the city survive the nation's worst economic times.

Along the way, he made a vow.

“This is a great, rich city,” he proclaimed in the letter. “It never has repudiated an obligation nor defaulted upon a debt — and it never will.”



Free Press file photo Charles Seesselberg/The Bond Buyer

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How this report was done

Digital information about Detroit’s financial history is sorely lacking. In pursuit of historical context on the city’s finances, the Free Press spent weeks conducting research at the Detroit Public Library’s Burton Historical Collection and Department of Sociology and Economics.

The Free Press created its own database of 50 years of Detroit’s financial history by reviewing the city’s annual financial audits for 1960-2012, reading a half century of pension fund reports and combing through many other city records.

City financial audits before 2002 were available in print only. Reports from 1964 and 1971 were not available.

The Free Press also conducted dozens of interviews with outside experts and leaders from the last six mayoral administrations to provide context and additional information.

The Free Press uses general fund revenue figures, which are the best reflection of the city’s financial health. For some years, the city’s audited figures were later slightly adjusted because of new accounting principles, delinquent receipts or additional spending.

Many news reports have relied on Detroit emergency manager Kevyn Orr’s assertion that the city has about $18 billion in debt. However, those figures include disputed estimates of the city’s long-term liabilities, including pension funds and retiree health care. In all references to the city’s debt, the Free Press is referring to the value of general obligation bonds, pension obligation certificates of participation and secured bonds, such as water and sewer debt.

In references to inflation-adjusted figures, the Free Press uses the recommended conversion method from the U.S. Bureau of Labor Statistics.

More on Detroit's financial crisis

Mayors of Detroit, 1950-2013

Editorial: For decades, Detroit leadership was blind to city's mounting problems

Stephen Henderson: Finally, dispelling the myths behind Detroit's decline

DIA in peril: The museum's long, tangled relationship with Detroit politics and finances

Continuing coverage about Detroit's bankruptcy filing